

## **-CITY MANAGER REPORT**

### **January 27, 2015**

Work continues on 77 HWY as weather permits. The last word I have gotten is that the base will be laid down and then the highway will be opened to traffic until better weather for doing the top 2" lift coat. Arnold Street will be finished when the top coat is done on the highway.

The electric department continues to trim trees and general electrical repairs as needed. The swimming pool filter has been ordered for this coming season for the pool. We have had several water leaks this month as the weather keeps changing.

The Street department is busing doing road patching as materials allows. This time of year it is hard to get material because of the out of town plants are closed due to cold weather.

I have attended both Hospital board meetings as well as the EDC meeting this month. At the chamber meeting we did some pre-planning on the spring events here in town.

Looks like the City has seven candidates vying for the two commission positions this year. We needed two positions for the Hospital board and we had two candidates fill out applications for those positions.

The guys are still dealing with a leaking roof at the Roadhouse. We have tried to repair the roof several times here of late and in prior years. With the roof still leaking we have closed off part of the building which includes a bathroom. Roadhouse volunteers are asking what we can do to get the problem fixed. There is no money allotted for the repairs and to put on a new gable roof. Although, we have gotten an estimate of \$29,000 dollars and some change. The side wall of the building is also leaking water in spots and we have tried to repair them. Some of the windows and window frames have been replaced but others need replaced. At this time, for the thirty thousand dollars the City could just about build a new structure out of wood. We do have a new business in which the young adults are invited to attend/use.

For the last several weeks and before, I have been trying to figure out what to do about the Electric utility and its lack of funds. I have asked for an increase as you know and it was turned down. "Come up with several options as to how to best fix the problem" was requested by commission". I have given thought and come up with several options. None of which are favorable. First, reduce costs, second, dismantle the utility, and third, raise the rates when our wholesale provider, Westar, does. A better in-depth synopsis follows in great detail.

Option 1. Reduce Costs. Some think that this would be a simple task. Reduce employees. How many employees would it take to make up for the shortfall of revenue due to not raising the electric rate throughout the past years when necessary? As shown by the last report, the cost of buying electricity varies depending on Westar operating conditions. We should now look at the other employees we can consider reduction of employees in the electric department. First, in over twenty plus years we have had three linemen in the department. When new lines or circuits

are built it takes more than the three men to build it, so staff uses other employees from other departments on the ground portion of work for help. This includes the mechanic, a lot. At some time in the past history the city must have been in need and that need was warranted. And still is warranted. Now comes thirty years later in time and the system has gotten bigger, more complicated in technology, and stricter in safety issues and work habits that requires better monitoring, higher quality maintenance, inspections and testing. More schooling and certification is also required. The professional field has recognized the serious issues that derive from running a utility and have trained the profession and its leaders so that safety is and must be a very large part of work habits. So in light of all of this information and facts, **I would not recommend a reduction in electric staff.** In looking at the budget, we have other personnel being paid out of the electric department, ten (10) to be exact. For instance, the mechanic. This position can be paid out of the Street fund which is in the General fund, the Police fund, the Fire fund, and the General fund which would raise the mill levy about 2.5mills, the Water fund, Sewer fund and of course the Electric fund would share costs. This move could be justified because the mechanic does work for all of these departments. To break this down, 4/7<sup>th</sup> of his pay could come out of the General fund, four different departments, 1/7<sup>th</sup> out Water, 1/7<sup>th</sup> out of Sewer, and 1/7<sup>th</sup> out of Electric. This would reduce the electric fund cost by \$35,269.72 in wages. A start. But we must be careful at this point because the General fund is not flush with money and we would be spending an additional \$23,513 out of the four general fund budgets at a cost to each department of \$5,878.29 for the rest of the year. In doing this we can try to cut costs out of four different funds to afford this added expenditure. Next year this would equate to a 2.5 mill increase in the mill levy for the General fund and added \$6,000 expenditures for two utility departments and of course a reduction in costs to the electric fund.

Because we had such a low fund in the Water fund, we again moved an employee out of the Water fund to meet budget requirements and moved this person into the Electric budget. After the budget was set the city increased the water rate to pay for the water tower maintenance contracts. We may want to try and move the employee back to the Water fund. We only estimated this cost so there may or may not be enough funding in the Water fund to clear this move. However, we again could save an additional approximately \$38,550 to \$42,000 in the electric fund depending on overtime requirement. One must remember, we will be taking a risk in the water fund though because all of the funds are fluid in character..

I have initiated an employment freeze. In doing this there is an opportunity to move another employee back into the General fund from the Electric fund. This employee makes about \$25,000 a year base. There again this would be an increase of 2.5 mill to the mill levy next year. So in adding all of this up, we can realize, with risk, around \$100,269.72 off of the Electric fund bottom line. However this is not enough to fix the electric fund. We should realize another \$30,000 or so from the Hospital which doesn't make up for the shortage we now have but helps. So at this point we have around \$130,000 for the electric fund to reduce the shortfall. But as of December 31, 2014 we are at \$149,654.56 in the red or negative funding. Still in the whole. This could put the electric fund at almost a break even posture. All of this moving around employees is with great risk and could push the City into default in several other departments.

In this option we could require that all entities that use our electric and don't participate in paying be shut off of city funds. That would mean that the Roadhouse, FRE, Homestead

apartments, Sewer plant, North water tower, The Hilltop building, the Fair ground, City shop, Over pass lights, West side Fire department, Pump house, Caretaker house, Lakes, Shelter house, American Legion camp host, South water tower, Library Prairie Pantry, Street lights, Liggitt park, Water plant, Public Safety building, Tripp Field, Community building, Mini Train, Tri-County Museum, Bull Pens, Latimer Pump House, Logan Point street lights, Father Padilla, Swimming Pool, Vietnam Memorial, Gazebo in North Park, Hospital Landing Lights, Homestead village, Fair Board building, Rodeo Ground, Demo Lights, Mower Shed, Tri-county Museum train car, Rabbit Barn, Tennis Courts and City Hall at a cost of approximately \$214, 500 per year. If this happens, there goes the "Quality of Life" this city has strived to achieve. Perhaps we can try to wean ourselves from some of this during our next budget process.

**At this point I would recommend raising the utility rate as requested.**

The second option is to dismantle the utility or sell it off or give it away where the City doesn't have any responsibility with the utility. However, the City is responsible for the new GO bond which came from the electric utility because the city and the financial advisors felt this was the best move for the city **to help reduce costs for the electric funds** because of the help it gave to the hospital. In doing this the General fund is now responsible for an additional approximately 10.5 mills to pay the bond. We were going to transfer this money out of the electric fund. But no electric utility, no funds to transfer. How about the ten (10) employees we pay out of the electric fund. They will be forced into the other funds which would result in a higher mill levy or rate increases for the other utilities.

I have spoken about the financial side of letting the utility go, now I will talk a little about the disadvantages. Absolutely no control of the electric service or rate increases. No control of building costs when an economic project is presented. No leverage in negotiation when we would go into economic developments. No control of fixing outages or other issues, the city will rely on someone else's schedule. Some other disadvantages would be who will pay for the electric for the FRE, the Roadhouse, the Parks, the Lakes, the Street lights, the Electric/Water plant, the Maintenance building, the Community building, the Historical building, the Fair building and the Fair and Carnival, the Swimming pool, the Library, the events downtown and others as fore-mentioned. This is just a few disadvantages to mention I am sure you know of the others.

**So, at this point I would recommend to not get rid of the electric utility and keep it to help support other projects as the city has done in the past. At this point, it is cheaper to raise the electric rate than to pay others for these "Quality of Life" benefits that make this community a great place to live.**

Our last option is to keep status quo and keep the electric utility and raise the rates as necessary and when our provider raises theirs. In this way we can maintain the system and the city benefits we enjoy to make this a great city. If we don't, the City will be raising rates in other utilities to pay for operational costs and salaries, raising the mill levy to pay for the electric usage in the general fund that supports our "Quality of Life" issues.

In past history, city staff has reduced maintenance and operational costs, became more efficient in operations and bought equipment that was Multi-dual purpose in their operations. We have given cost of living raises to keep up with the economies of scale and to keep our qualified staff in place. The City budget is worked on every year and things are assumed and planned to make a balanced budget. The City is responsible for maintaining that budget and providing the service our utilities are mandated to do according to statutes and state department requirements. We cannot not install a new million dollar filter system water if that is what KDHE requires.

(EXAMPLE) We must adjust costs or operations to meet our requirements. Now in the past the City absorbed the raises Westar has put on the City. We are now at the point where there is no room to compensate or just ignore our responsibilities. We must pass on a rate increase if the City wants to survive. We must pass on a rate increase if the City wants any kind of future for your children to come home to.

I see that the City has three options, none of which are great ones, Reduce costs at some cost, Sell the utility, or Raise the utility costs. If the City wants some type of "Quality of Life" in this great community, please reconsider this request.